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UNCLAS SECTION 01 OF 02 CONAKRY 000129

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SENSITIVE

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TREASURY FOR OFFICE OF AFRICAN NATIONS
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E.O. 12598: N/A
TAGS: ECON PREL PGOV ELAB ASEC PINS EAID GV
SUBJECT: GUINEA: FINANCIALLY UNFEASIBLE RICE AND FUEL CONCESSIONS
UNDERPIN STRIKE DEAL

REFS: (A) Conakry 118 and previous,
(B) Conakry 84

Summary

¶1. (SBU) In brokering a suspension of the general strike that crippled Guinea for almost three weeks (Ref A), the Government of Guinea agreed to economic concessions that may prove untenable. Fuel and rice, which are already heavily subsidized, will be further subsidized with tax benefits for suppliers. According to the accord, the price of rice will be halved, and the price of fuel reduced more than 10%; the concessions are to last for the rest of the calendar year. The government also banned export of agricultural, forestry and petroleum products for the rest of the calendar year in hopes that food prices will stabilize if there is abundance in the market. The suspension of exports is interpreted by some as a breach of Guinea's obligations under ECOWAS trade agreements and with its neighbors in the Mano River Union.

¶2. (SBU) The government of Guinea plans to finance the new subsidies through a tax suspension and credit program that will not require any dispersal of cash to the participating suppliers in the fuel and rice sectors. If the two plans are fully enacted, the government of Guinea will lose an estimated 444 billion GNF (some 7.3 million USD) in tax revenue this quarter. This projected loss combined with the 5,360,000 GNF (900,000 USD) in tax revenue the government of Guinea lost during the strike (Ref B), will strain the government's coffers and ultimately may lead to an even more tenuous economic situation. End summary.

Let's Make A Deal

¶3. (SBU) Among the concessions the government of Guinea negotiated to end the general strike were subsidies on rice and fuel (Ref A). In its accord with labor unions, the government agreed to lower the price of a 50 kg sack of rice from an average market price of 175,000 Guinean Francs (GNF) to 87,500 GNF, or 31 USD to 15.25 USD. The government and the unions agreed to reduce the price of fuel from 5000 GNF to 4300 GNF per liter, or 0.85 USD to 0.70 USD per liter. To finance these subsidies, the government plans to suspend a percentage of taxes with the savings to be passed on to the consumer. The projected lost tax revenue for the first fiscal quarter is 279 billion GNF (4.6 million USD) for the gas subsidy, and 165 billion GNF (2.7 million USD) for the rice subsidy.

A Sticky Rice Accord

¶4. (SBU) On January 30, EconOff met with Djbril Barry, proprietor of Barry et Fils, one of Guinea's two major rice importers. Barry doubted the government of Guinea's ability and commitment to reimburse his company for rice subsidies. In 2004, the government failed to honor its commitment to reimburse importers after obliging rice importers to sell below market value. Barry said the government of Guinea still owes his company nearly 500,000 USD from ¶2004. In June 2006, the government ordered that rice be sold at 85,000 GNF (14 USD) per 50 kg bag vice the market price of 130,000 GNF (23 USD). These efforts resulted in only limited amounts of rice reaching the marketplace at the subsidized price and the overall average price of rice increasing.

¶5. (SBU) Under the 2006 subsidy plan, the government of Guinea promised rice importers they would be reimbursed in cash on a monthly or quarterly basis. In the end, the government paid for its subsidy through exoneration of customs taxes. Barry said his company made subsidized rice available when the government of Guinea made payment, but when the government fell behind in payments, his company sold rice at the retail price out of economic necessity. In 2006, the company provided 8,000 tons of rice at the subsidized price for three months, directly to the unions. They received customs exoneration for that quantity. Barry said his company plans to make an initial 1,000 tons of rice available at 87,500 GNF per bag and wait for reimbursement, i.e., tax credits, after which the company will release another 1,000 tons of rice.

¶6. (SBU) On January 31, EconOff spoke with Alpha Diallo, owner of Societe de Commerce et de Financement, Guinea's leading rice importer. Diallo and Barry control more than 90 percent of Guinea's rice imports, and both are aware that together they constitute a monopoly. Diallo mirrored Barry's comments saying his company would

also release an initial 1,000-ton stock of rice but would make no more available until the government applied the promised tax credits. Like Barry, Diallo claims the government of Guinea still owes him from subsidy initiatives in 2004 and 2006. In 2006, Diallo supplied the military with its subsidized rice and received partial cash payment for the subsidy.

¶7. (SBU) Diallo said he and Barry refuse to enter into any long term agreements with the government of Guinea until a new Prime Minister is appointed. Both men fear a tax credit contract might be annulled or disregarded by members of a new government. They agreed they could best protect their investments and stay in good graces with the government by releasing small amounts of rice at a time, rather than contractually binding themselves to produce tens of thousands of tons of rice at deeply subsidized prices.

¶8. (SBU) Note: At current exchange rates, a 50 kg sack of rice costs the importer 116,000 GNF (20.50 USD) before transport or storage expenses. The government's tax credit of 28,500 GNF (4.75 USD) does reduce the sack of rice to 87,500. However, this new cost structure does not factor in profit margin for the importer or subsequent distributors. End Note.

Fuel for the Fire

¶9. (SBU) On January 31, EconOff met with Alpha Yaya Diallo, chief of the National Customs Directorate responsible for petroleum products. Diallo was critical of the tripartite accord and said the government of Guinea did not consult the petroleum companies prior to agreeing to lower the price of fuel (unleaded gas, diesel and kerosene) to 4300 GNF per liter (vice 5000 for unleaded gas and 5200 for diesel). Diallo said the subsidy will make unleaded fuel more affordable to consumers, but gas station owners will not realize a profit because, after transport expenses, the subsidy only puts the product at cost. Diallo argued that only the diesel subsidy allows gas station owners to make a profit.

¶10. (SBU) Gas stations were closed most of the day on February 1.

Long lines of waiting vehicles slowed passing traffic, which was lighter than usual because taxis had no fuel. Especially early in the day, large numbers of would-be taxi commuters clustered at key intersections hoping vainly for transport to work. At the end of the day, some stations opened and began selling at the new price. As of February 2, there are plentiful taxis. The problem may in part have been due to logistic obstacles to getting the cheaper gas delivered, according to contacts at Total and Shell.

¶11. (SBU) Diallo told us he was "discouraged" that the government of Guinea decided to ban exports of agricultural products, and said he interpreted the decree as contrary to WTO, ECOWAS and Mano River Union protocols relating to free movement of persons and goods. Diallo expressed concern that the policy could "only lead to" more smuggling of food and petroleum products to neighboring countries as now gas and food will be significantly cheaper in Guinea. Diallo said it would be impossible to patrol Guinea's borders not only because they are porous, but because increased smuggling will tempt even the most upstanding Customs officers to accept bribes. Even if it were possible to completely patrol the borders to enforce the policy, it is still "doomed" to fail because the government of Guinea is incapable of providing the subsidies in the long term, he concluded.

COMMENT

¶12. (SBU) In its desire to end the recent strike, the government of Guinea made a series of promises that are economically untenable and virtually impossible to deliver in the medium to long term. So far, very little rice is available at the subsidized price, and even that can only be obtained through local officials, generally after paying a bribe. As gas station owners fail to realize profits, they may refuse to sell, claiming lack of supply, despite a communique requiring that they do so. The most serious issue, however, is the cessation of exports. In the short term, Guinea's markets may see an increase in goods and prices will likely fall. However, the subsequent lost tax revenue, lower amounts of incoming hard currency, and the cessation of a lively regional trade will only further damage Guinea's already frail economy.

MCDONALD